One-time Payment in Lieu of a Social Security COLA

November 12, 2010

Congressional Research Service
https://crsreports.congress.gov
R41488

Summary

In October 2010, the Social Security Administration announced that Social Security beneficiaries will not receive a cost-of-living adjustment (COLA) in 2011 for the second consecutive year. The COLA is based on a formula in the Social Security Act and the change in prices as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Because consumer prices reached a peak in 2008 and have not regained that peak over the measurement periods used to determine the COLA for 2010 and 2011, Social Security benefits remain flat at their 2009 levels. Stated another way, beneficiaries are protected against a negative COLA that would reduce benefits.

Beneficiaries of other federal programs are also affected by the absence of a Social Security COLA, including Supplemental Security Income, veterans' pensions administered by the Department of Veterans Affairs, and benefits administered by the Railroad Retirement Board. Beneficiaries of these programs also will not receive a COLA in 2011. Recent projections suggest that the next Social Security COLA may be payable in January 2012.

A number of bills have been introduced that would provide a one-time payment in lieu of a COLA. For example, H.R. 5987 (Representative Pomeroy), Seniors Protection Act of 2010, which is likely to be considered before the end of the 111th Congress, would provide a one-time payment of $250 to Social Security and certain other beneficiaries. Other bills would provide an ad hoc COLA of a specified percentage or require the use of a different measure of price change to determine the COLA. Alternative measures of price change, such as the experimental Consumer Price Index for the Elderly (CPI-E), are proposed on the basis that the CPI-W may not accurately reflect the spending patterns of the Social Security beneficiary population, especially the elderly who tend to allocate a greater share of their total spending to healthcare than the rest of the population. If the CPI-E had been used in place of the CPI-W to compute the COLA, it would not have resulted in a COLA in 2010 or 2011.

The proposed one-time payment is viewed by supporters as a way to assist economically vulnerable individuals, especially the "oldest old" and women who tend to have higher poverty rates. Others point out, however, that the population aged 65 and older as a group is not uniformly economically vulnerable. They also argue that a one-time payment is not necessary because beneficiaries received an unusually high COLA in 2009 (5.8%) and were protected against deflation in a subsequent period. The CPI-W has remained below its 2008 peak during the measurement periods used to determine the 2010 and 2011 COLAs.

Supporters of a one-time payment also view it as a means to stimulate the economy. Estimates from the Congressional Budget Office show that a one-time payment to Social Security beneficiaries ranks behind other categories of government spending (including spending on unemployment benefits) that can be expected to encourage immediate spending and provide a boost to the economy. Means testing the one-time payment could help to target it more effectively, creating a stronger economic stimulus effect. Others express concern regarding the budget impact of a one-time payment in lieu of a COLA.

Experience related to the $250 economic recovery payments to Social Security and certain other beneficiaries in 2009 under P.L. 111-5 can provide insight into potential administrative issues, including those related to improper payments, and other considerations.

Contents

Figures

Tables

Appendixes

Contacts

Introduction

In October 2010, the Social Security Administration (SSA) announced that Social Security beneficiaries would not receive a cost-of-living adjustment (COLA) in 2011. Similarly, beneficiaries did not receive a COLA in 2010. Social Security COLAs are based on a measure of inflation reported by the Bureau of Labor Statistics (the Consumer Price Index) and a formula specified in the Social Security Act. Consumer prices reached a peak in the third quarter of 2008 but fell in subsequent months. Because the CPI-W did not regain its 2008 peak over subsequent measurement periods used to determine the COLA for 2010 and 2011, there has been no inflation adjustment to benefits for two consecutive years. Beneficiaries of other programs are also affected by the absence of a Social Security COLA. For example, the Social Security COLA triggers an increase in Supplemental Security Income, veterans' pensions administered by the Department of Veterans Affairs and railroad retirement benefits. Both the Congressional Budget Office (CBO) and the Social Security Board of Trustees project that a COLA will be payable in January 2012.

In response to the absence of a COLA for the second consecutive year, some Members of Congress and the President are again calling for a one-time payment of $250 in lieu of a COLA for Social Security beneficiaries, veterans, and others. Democratic congressional leaders have stated their intent to bring such legislation to the floor before the close of the 111th Congress. The proposed one-time payment is viewed by supporters as a way to assist economically vulnerable individuals and as a means to stimulate the economy.

During the 111th Congress, in response to the absence of a Social Security COLA in 2010 and 2011, a number of bills that would take different approaches have been introduced. Some measures would provide a one-time payment in lieu of a COLA (the amount of the payment would vary depending on the proposal), whereas others would provide an ad hoc COLA of a specified percentage or require the use of a different measure of inflation to compute the COLA.

This report explains how the Social Security COLA is computed under current law and discusses some of the concerns that have been raised about the Consumer Price Index, the measure on which the COLA is based, as a true measure of the cost of living, especially for the elderly. It then provides a brief summary of legislation introduced in the 111th Congress related to the Social Security COLA issue. The report presents policy considerations regarding a one-time payment in lieu of a COLA, including the economic status of older Americans, their reliance on Social Security benefits, and the effectiveness of this type of government spending as an economic stimulus. Drawing from recent experience with the $250 economic recovery payments to Social Security and other beneficiaries provided under the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5), the report offers points to consider with respect to the design of a one-time payment proposal, such as the scope of the eligible beneficiary population; administrative issues, including those related to improper payments; and the budget impact of such payments.

Social Security COLA

The Social Security COLA is an annual inflation-adjustment to benefits to help them maintain their purchasing power over time. Before 1972, Congress periodically increased benefits on an ad hoc basis. In 1972, Congress enacted legislation providing for automatic COLAs beginning in 1975.[1] Since 1975, a COLA has been paid each year except 2010 and 2011.

How the COLA is Determined Under Current Law

The Social Security COLA is based on the rate of inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is published monthly by the Bureau of Labor Statistics (BLS). Specifically, the COLA is based on the percentage increase in the average monthly CPI-W from the third quarter of the base year (the base year is the last year for which a COLA was applied) to the third quarter of the current year. The COLA is applied (or *becomes effective*) in December of the current year and is *payable* in January of the following year. For example, the payment that a beneficiary receives in January 2011 reflects the benefit for December 2010.

Social Security beneficiaries did not receive a COLA in January 2010 because the average monthly CPI-W fell by 2.1% from the third quarter of 2008 to the third quarter of 2009 (making 2008 the base year for computing the next COLA). Similarly, beneficiaries will not receive a COLA in January 2011 because the average monthly CPI-W fell by 0.6% from the third quarter of 2008 to the third quarter of 2010 (2008 remains the base year for computing the next COLA).[2] The next COLA will be payable when the average monthly CPI-W for the third quarter of the current year exceeds the average monthly CPI-W for the third quarter of 2008. In August 2010, CBO and the Social Security Board of Trustees projected that the next COLA will be payable in January 2012.[3]

If there is a *decrease* in the CPI-W over the measurement period (if there is a decline in prices), Social Security benefits are not reduced. Stated another way, if the change in the CPI-W over the measurement period does not result in a COLA, benefits remain flat (before deductions for Medicare Part B and Part D premiums). **Figure 1** illustrates how Social Security recipients benefit in 2010 and 2011 from the current-law provision that precludes a negative COLA. In the figure, the monthly benefit amount received by the average retired worker in 2004 ($1,073[4]) is increased based on the CPI-W and the current-law Social Security COLA during the period from 2005 to 2011. The impact of the provision preventing a negative COLA is shown by the top line, which remains constant from 2009 to 2011. Without the provision prohibiting a negative COLA, benefit amounts would have followed the lower dashed line (indexed to the CPI-W) in 2010 and 2011.

---

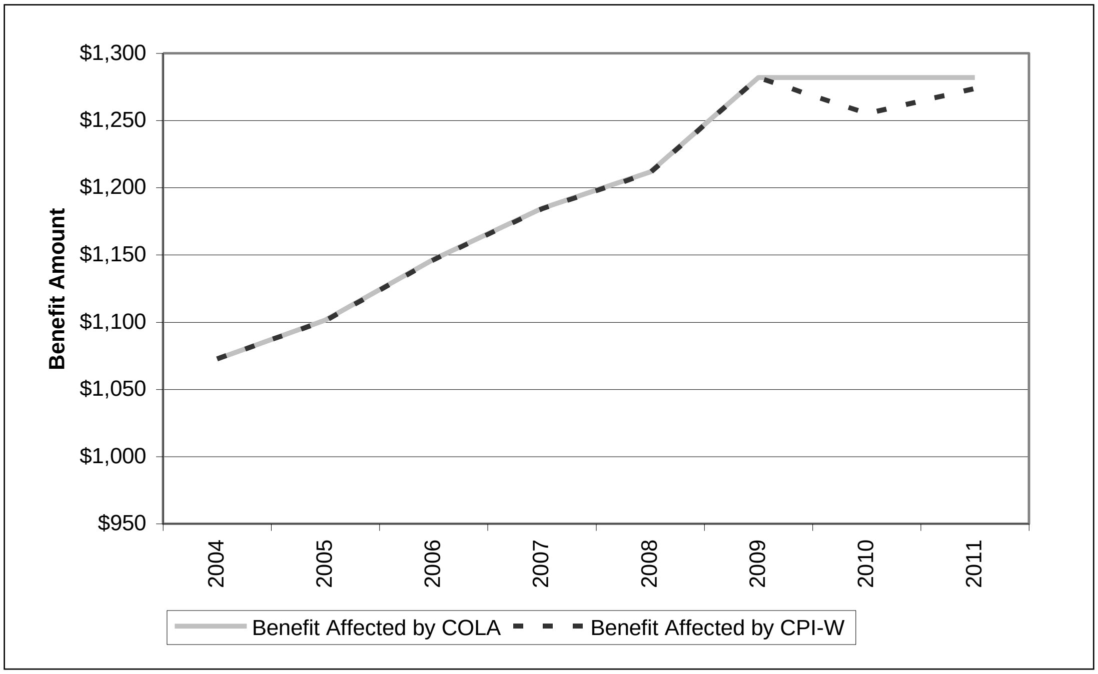
[1] Under P.L. 92-336, benefits were increased automatically each January if the cost of living increased 3% or more over the measurement period. Under current law, benefits are increased automatically if there is at least 0.1% inflation over the measurement period. If there is a less than 0.1% change in prices, benefits stay the same.

[2] For more information, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor.

[3] CBO projected that a COLA of 0.4% will be payable in 2012. See CBO, *The Budget and Economic Outlook: An Update*, August 2010, p. 20, http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf. The Social Security Board of Trustees projected that a COLA of 1.2% will be payable in 2012. See *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, August 5, 2010, Table V.C1, intermediate projections, p. 109, http://www.socialsecurity.gov/OACT/TR/2010/tr2010.pdf. In Table V.C1, see the value projected for 2011 which refers to the COLA that becomes effective in December 2011 and payable in January 2012.

[4] Social Security Administration, *Annual Statistical Supplement, 2010*, Table 6.A2, available at http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2010/6a.html#table6.a2.

Figure 1. Social Security Benefits are Protected from Negative COLAs



Source: The 2004 average monthly benefit for a retired worker ($1,073) is found at Social Security Administration, *Annual Statistical Supplement, 2010*, Table 6.A2, available at http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2010/6a.html#table6.a2. An historical series for the Social Security COLA can be found at http://www.socialsecurity.gov/cola/automatic-cola.htm. An historical series for the CPI-W can be found at http://www.bls.gov/cpi/home.htm.

Note: The average monthly benefit of a retired worker who was newly entitled in 2004 ($1,072.50) is adjusted by the CPI-W (dashed line) and the Social Security COLA (solid line).

Interactions Between the Social Security COLA and Medicare Premiums

In the absence of a Social Security COLA, most Social Security beneficiaries will be held harmless for an increase in the Medicare Part B premium, therefore their net Social Security benefit amount will not decrease. For about a quarter of beneficiaries, however, an increase in Medicare Part B premiums may result in a net reduction to Social Security benefits. Regardless of whether a COLA is paid in a given year, beneficiaries could experience a net reduction in Social Security benefits as a result of increases in the Medicare Part D premium.[5]

Other Social Security Provisions Affected

The absence of a Social Security COLA also affects other provisions of the Social Security program. By law, if there is no COLA, there can be no change in the amount of covered wages subject to the Social Security payroll tax (i.e., the taxable wage base, which is $106,800 in 2010).[6] In addition, there can be no change in the exempt amounts under the Social Security

[5] For a discussion of the interaction between Social Security benefit amounts and Medicare premiums, including the "hold harmless" provision, see CRS Report R40561, *Interactions Between the Social Security COLA and Medicare Part B Premiums*, by Jim Hahn and Alison M. Shelton.

[6] For more information on the taxable wage base, see CRS Report RL32896, *Social Security: Raising or Eliminating the Taxable Earnings Base*, by Janemarie Mulvey.

Retirement Earnings Test (RET).[7] Similarly, there can be no change in the Substantial Gainful Activity (SGA) amount for blind individuals who receive Social Security disability benefits.[8] These program elements are adjusted annually based on the increase in the national average wage index only if there is a COLA. As a result, these program elements remain at their 2009 levels in 2010 and 2011.[9]

Other Beneficiaries Affected by the Social Security COLA

Beneficiaries of other programs are also affected by the absence of a Social Security COLA, including low-income elderly and disabled persons, veterans, and federal civil service annuitants. Theses beneficiaries are affected because the Social Security COLA triggers an increase in another program's benefits, or the program uses the same measurement period and formula for computing the COLA as the Social Security program, or legislation is enacted each year providing a COLA for benefits paid under the program equal to the Social Security COLA. As a result, beneficiaries of the programs listed below will not receive a COLA in January 2011.

The Social Security COLA triggers an increase in benefits paid under the following programs.

- **Supplemental Security Income (SSI)**. SSI is a means-tested program that provides monthly cash benefits to aged (65 or older), blind, or disabled persons with limited income and assets.[10] SSI benefits are increased by the same percentage as the Social Security COLA.
- **Veterans' Pension Benefit Programs**. The Department of Veterans Affairs (VA) administers two means-tested pension benefit programs for veterans and their families: the Improved Disability Pension for certain low-income veterans and the Improved Death Pension for certain low-income surviving spouses and dependent children of veterans.[11] VA pension benefits are increased by the same percentage as the Social Security COLA.
- **Railroad Retirement Board (RRB) Programs**. The RRB administers retirement and disability benefits for railroad workers and their families. Tier I benefits (which are equivalent to a Social Security benefit) are increased by the same percentage as the Social Security COLA. Tier II benefits (which are equivalent to a private pension) are increased by 32.5% of the Social Security COLA.[12]

---

[7] The exempt amounts under the RET are the amounts of earnings that beneficiaries below full retirement age may have before benefits are affected. For more information, see CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*, by Dawn Nuschler and Alison M. Shelton.

[8] An individual who receives Social Security disability benefits may not have earnings above a certain amount, known as the Substantial Gainful Activity (SGA) amount.

[9] By law, other program elements are adjusted annually based on the increase in the national average wage index whether or not a COLA is payable (such as the SGA amount for non-blind individuals who receive Social Security disability benefits). These program elements, however, will remain at their 2010 levels in 2011 because there was a decrease in the national average wage index for 2009. For more information, see the SSA fact sheet at http://www.ssa.gov/pressoffice/factsheets/colafacts2011.pdf. In addition, see *Federal Register*, Cost-of-Living Increase and Other Determinations for 2011, SSA, October 26, 2010, http://edocket.access.gpo.gov/2010/2010-26983.htm.

[10] For more information, see CRS Report 94-486, *Supplemental Security Income (SSI): A Fact Sheet*, by Scott Szymendera.

[11] For more information, see CRS Report RS22804, *Veterans' Benefits: Pension Benefit Programs*, by Christine Scott and Carol D. Davis.

[12] For more information, see CRS Report RS22350, *Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits*, by Alison M. Shelton.

COLAs under the following programs are not triggered by the Social Security COLA; however, these programs use the same measurement period and formula for computing COLAs as the Social Security program.

- **Civil Service Retirement System (CSRS)**. CSRS provides retirement, survivor and disability benefits to civilian federal employees hired before 1984 and their families. Benefits for CSRS retirees and survivors are adjusted annually by a COLA.[13]
- **Military Retirement System**. The military retirement system includes monthly compensation and benefits after an active or reserve military career, disability retirement for those physically unfit to continue to serve, and survivor benefits for the eligible survivors of deceased retirees. The monthly retirement annuity is adjusted annually by a COLA.[14]

Similarly, the following program uses the same measurement period for computing its COLA as the Social Security program, although a modified formula is used to limit the COLA.

- **Federal Employees Retirement System (FERS)**. FERS provides retirement, survivor, and disability benefits to civilian federal employees hired in 1984 or later, as well as to federal employees who voluntarily switched from CSRS to FERS, and their families. Under FERS, the COLA is based on the percentage change in the CPI-W over the same measurement period as the Social Security COLA; however, a different formula is used which limits the COLA if the rate of inflation exceeds 2.0%. Benefits for non-disabled retirees aged 62 or older, disabled retirees and survivors are adjusted annually by a COLA.[15]

Benefits paid to disabled veterans and to survivors of certain servicemembers and veterans under the following programs are not automatically indexed for inflation. However, Congress enacts legislation each year to provide a COLA for these benefits equal to the Social Security COLA.

- **Veterans' Disability Compensation**. Disability compensation provides a monthly cash benefit to veterans whose disabilities resulted from injury or disease contracted in, or aggravated by, military service. The amount is based on the level of disability.[16]
- **Dependency and Indemnity Compensation (DIC) for Survivors**. DIC provides a monthly cash benefit to survivors and dependents of servicemembers killed while on active military duty, and to survivors and dependents of certain veterans.[17]

---

[13] For more information on COLAs under CSRS, see CRS Report 94-834, *Cost-of-Living Adjustments for Federal Civil Service Annuities*, by Katelin P. Isaacs.

[14] For more information, see CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Charles A. Henning.

[15] Under FERS, non-disabled retirees under the age of 62 do not receive COLAs. For more information on COLAs under FERS, see CRS Report 94-834, *Cost-of-Living Adjustments for Federal Civil Service Annuities*, by Katelin P. Isaacs.

[16] For more information, see CRS Report RL34626, *Veterans' Benefits: Benefits Available for Disabled Veterans*, by Christine Scott and Carol D. Davis.

[17] For more information, see CRS Report R40757, *Veterans' Benefits: Dependency and Indemnity Compensation (DIC) for Survivors*, by Christine Scott.

The Veterans' Compensation Cost-of-Living Adjustment Act of 2010 (P.L. 111-247, signed on September 30, 2010) provided a COLA for veterans' disability compensation as well as DIC in 2011 equal to the Social Security COLA.[18]

The Social Security COLA as a Measure of Older Americans' Cost of Living

General Concerns About CPI Measures as True Measures of the Cost of Living

In 1996, a Senate-appointed Commission led by Michael Boskin of Stanford University reported that the Consumer Price Index (CPI) overstated inflation by an average of 1.1% per year during 1995-96.[19] The commission, which was widely known as the Boskin Commission, attributed the upward bias in the CPI to several methodological issues, including consumers' shift to discounters and incomplete accounting for substitution among products in response to price changes. The commission attributed the largest source of upward bias in the CPI (0.6% per year) to the difficulty of adjusting the index for new products and changes in the quality of products. These methodological problems affect several of the BLS' CPI measures, including the CPI-W, the inflation measure that SSA uses to calculate the Social Security COLA.

Since the Boskin Commission released its report, BLS has made several improvements to the CPI methodology. These improvements include adjusting spending weights more rapidly to respond to changes in spending patterns, changing sampling techniques and some technical changes to the CPI formula. Work remains to be done, however, according to BLS officials and academic researchers. In particular, the methodology used to calculate the various CPI indices still fails to capture accurately the introduction of new products or changes in the quality of existing products.

The CPI-Elderly

Concern has been expressed that the CPI-W, upon which the Social Security COLA is based, may not accurately reflect the spending habits of retired and aged persons. The CPI-W tracks the spending habits of employed, urban workers, but about 80% of Social Security beneficiaries are aged 62 or over[20] and are likely to be retired. The elderly also devote a greater share of their spending to healthcare than the rest of the population. Persons aged 65 and older spend more than twice as much of their total outlays on healthcare as does the overall population, where outlays on healthcare are defined as expenditures on health insurance premiums and out-of-pocket costs, but excluding benefits paid by employers or federal government programs.[21] Persons aged 75 and older allocate almost three times as much of their total outlays on healthcare as the overall population.

---

[18] 38 USC §1104 and §1303 limit cost-of-living adjustments to the Social Security COLA, as calculated under the Social Security Act §215, for fiscal years 98-13.

[19] See http://www.ssa.gov/history/reports/boskinrpt.html.

[20] CRS calculations based on data from the Social Security Administration, *Annual Statistical Supplement, 2010*, tables 5.A1, 5.A1.4 and 5.A16.

[21] CRS Report RS20060, *A Separate Consumer Price Index for the Elderly?*, by Brian W. Cashell.

In response to concerns about how effectively the CPI-W tracks the spending patterns of the elderly, in 1987 Congress directed BLS to introduce an experimental new index for the elderly, the CPI-Elderly (CPI-E).[22] From 1985 to 2009, the CPI-E has risen about 0.3 percentage point more per year, on average, than the CPI-W.[23]

BLS and some analysts argue that the experimental CPI-E currently has some technical limitations and should be used with caution. For example, CPI-E uses the same geographical areas and retail outlets as the CPI-W, although seniors may live in different geographical areas and frequent different retail outlets than the rest of the population. It has also been argued that all BLS inflation measures, including the CPI-E, understate the rate of improvement in the quality of healthcare and that incorporating healthcare quality improvements would reduce measured changes in the price of healthcare.[24] Since most elderly have their major medical expenses covered by Medicare, their out-of-pocket healthcare expenses are generally for items such as prescription drugs, long-term care and over-the-counter healthcare items.

Comparison of the CPI-E and CPI-W

Figure 2 shows the historical performance of the CPI-E and CPI-W. Each index is represented by the third quarter average for the given year because, as discussed above, the Social Security COLA is based on the percentage increase in the CPI-W from the third quarter of the base year (the last year for which a COLA was applied) to the third quarter of the current year. As shown in **Figure 2**, the CPI-E tends to grow faster than the CPI-W. From 1985[25] to 2010, the average annual increase in the CPI-E was about 3.1%. During the same period, the average annual increase in the CPI-W was about 2.9%. However, the CPI-E rose more slowly than the CPI-W in certain years, including 2005, 2008, and 2009.

Using the CPI-E would *not* have led to a COLA in 2010 or 2011, however, as **Figure 2** illustrates. Both the CPI-W and CPI-E contain a component of energy prices, which peaked in the third quarter of 2008 but then fell sharply in the fourth quarter of 2008. As shown in the figure, neither the CPI-E nor the CPI-W had recovered its 2008 peak by the third quarter of 2010.

[22] For a description of the experimental CPI-E and some of its limitations, see Bureau of Labor Statistics, *Experimental Consumer Price Index for Americans 62 Years of Age and Older, 1998-2009*, Washington, DC, http://www.bls.gov/cpi/cpieart2009.pdf.

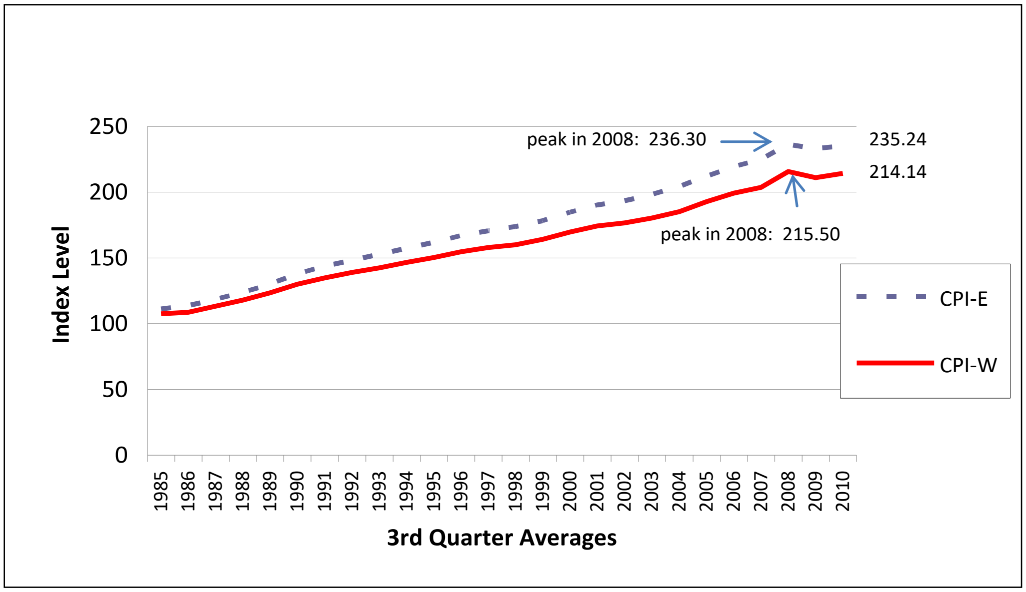
[23] CRS calculations. Consistent with the current-law use of the CPI-W for the purposes of determining the Social Security COLA, the calculation here compares annual changes in the third quarter averages of the two indices.

[24] Robert J. Gordon, *The Boskin Commission Report: A Retrospective One Decade Later*, National Bureau of Economic Research, Cambridge, MA, June 2006, http://www.nber.org/papers/w7759.pdf.

[25] The CPI-E series issued by BLS begins in December 1982.

Figure 2. CPI-E and CPI-W

3rd quarter averages, 1985 to 2010



Source: CRS calculations using CPI-W data available at http://www.bls.gov/cpi and CPI-E data provided by BLS staff.

Other researchers have pointed out that using the CPI-E instead of the CPI-W would not have led to a Social Security COLA in 2010 because the CPI-E, like other inflation indices, declined from 2008 to 2009.[26]

Legislation in the 111th Congress

A number of bills introduced in the 111th Congress would provide a one-time payment in lieu of a COLA. These bills vary in terms of the payment amount, who would be included in the pool of eligible beneficiaries, and whether the cost of the one-time payment would be offset by other provisions. Other bills would provide a one-time, ad hoc COLA of a specified percentage. Members of Congress have also introduced several bills to require that SSA use a different inflation measure to determine the COLA, based on arguments that the CPI-W may not accurately reflect the spending patterns of the Social Security beneficiary population.

For example, H.R. 5987 (Representative Pomeroy), Seniors Protection Act of 2010, is likely to be considered before the end of the 111th Congress. H.R. 5987 would provide a one-time $250 payment to all Social Security beneficiaries, including children and disabled beneficiaries receiving SSDI, railroad retirees, SSI recipients, and certain veterans in the event that no Social Security COLA is payable in 2011. The one-time payment would be disbursed to persons who were entitled to benefits (in the case of SSI, eligible for benefits) in any of the three months ending immediately prior to the month in which the bill was enacted and, in the case of Social Security beneficiaries, were paid a benefit in any of the 12 months ending prior to the month in

[26] Andrew G. Biggs, *A Diet COLA for Social Security? Not Really*, American Enterprise Institute for Public Policy Research, No. 5, Washington, DC, October 2009, http://www.aei.org/outlook/100076. See also Kathy Ruffing, *Case for a Social Security Cost-of-Living Adjustment in 2010 is Weak*, Center on Budget and Policy Priorities, Washington, DC, October 14, 2009, http://www.cbpp.org/files/10-14-09bud.pdf. See also the webcast and printed summary at http://www.urban.org/publications/500190.html.

which the bill was enacted. Only one $250 payment would be made to each individual, regardless of whether he or she was entitled to, or eligible for, benefits under more than one program. Payments would not be made to persons who were prisoners or aliens who were not lawfully present in the United States. The one-time payment would be disregarded for the purposes of all federal and federally-assisted programs, and would not be considered income for the purposes of taxation. Payments would be made at the earliest practicable date in 2011 prior to April 1, 2011, and no payments would be disbursed after December 31, 2011.

In October 2010, Speaker of the House Nancy Pelosi and Senate Majority Leader Harry Reid announced their support for consideration of a one-time $250 payment to Social Security and certain other beneficiaries when Congress returns after the November elections.[27] On October 15, 2010, the White House press office announced that the President supports efforts to provide a $250 payment to seniors, veterans, and people with disabilities.[28] Other Members of Congress have questioned the need for such a payment or indicated that they may support a one-time payment only if the legislation includes financing provisions.

Policy Considerations

This section the report discusses issues that may inform the debate on whether to provide a one-time payment to those directly affected by the Social Security COLA: the economic condition of older Americans; their dependence on Social Security benefits and their economic vulnerability in recent times; the effectiveness of this category of government spending as an economic stimulus; and the option of means testing such payments. Other issues discussed in this section include parity for certain government retirees and residents of U.S. territories, improper economic recovery payments under the American Recovery and Reinvestment Act of 2009 (ARRA), and the potential budget impact of a one-time payment.

The Economic Condition of Older Americans

Incidence of Poverty

In September 2010, the Census Bureau released new poverty data showing the effects of the recent recession.[29] Overall, 43.6 million people in 2009 were living in poverty, up from 39.8 million in 2008, and the poverty rate increased from 13.2% to 14.3%, the highest national poverty rate since 1994.[30] However, the aged saw a decline in their poverty rates. As seen in **Table 1**, the 65 or older age group in general had poverty rates that were in absolute terms lower than those for younger age groups in both 2008 and 2009. In 2009, the aged saw their poverty rate drop by 0.8 percentage point to 8.9%. In contrast, one of the more adversely affected groups in the recent

[27] Speaker Pelosi's announcement can be found here: http://pelosi.house.gov/news/press-releases/2010/10/pelosi-statement-supporting-the-seniors-protection-act-providing-relief-for-seniors.shtml. Senate Majority Leader Reid's intention to support legislation in late 2010 can be found at http://reid.senate.gov/newsroom/pr_10_19_10_costliving.cfm.

[28] See http://www.whitehouse.gov/the-press-office/2010/10/15/statement-press-secretary-robert-gibbs-social-security-economic-recovery.

[29] *Income, Poverty, and Health Insurance Coverage in the United States 2009*, U.S. Census Bureau, Washington, DC, pp. 60-238. For more information, see CRS Report RL33069, *Poverty in the United States: 2009*, by Thomas Gabe.

[30] The 2009 poverty thresholds for persons aged 65 and older were as follows: $10,289 for a single person and $12,982 for a couple. For persons under age 65, the poverty threshold varies by family size. For example, the threshold is $11,161 for a single person, $14,366 for a two-person family with no children, and $21,756 for a four-person family with two children.

recession has been children under the age of 18 who saw their poverty rates go up from 19.0% to 20.7%.

Table 1. Persons in Poverty by Age: 2008 and 2009

	2008			2009			
Age	**Total Persons (‘000)**	**Persons in Poverty (‘000)**	**Percent in Poverty**	**Total Persons (‘000)**	**Persons in Poverty (‘000)**	**Percent in Poverty**	**Change in Poverty (percentage points)**
Under 18 years	74,068	14,068	19.0	74,579	15,451	20.7	1.7
18-64 years	189,185	22,105	11.7	190,627	24,684	12.9	1.3
65 years and older	37,788	3,656	9.7	38,613	3,433	8.9	-0.8
Total	301,041	39,829	13.2	303,820	43,569	14.3	1.1

Source: U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2009*, Table 4 based on the Current Population Survey, 2009 and 2010 Annual Social and Economic Supplement, available at http://www.census.gov/prod/2010pubs/p60-238.pdf.

Note: Details may not sum to totals due to rounding.

An unusually large COLA of 5.8% was paid to all Social Security beneficiaries in January 2009, a result of a jump in energy prices in August 2008. This adjustment, based on the change in the CPI-W from July through September of 2007 to the same three month period in 2008, provided for the highest automatic increase since 1982. Prices fell in subsequent months in 2008 so that the annual CPI-W change for calendar year 2008 was somewhat lower. In other words, Social Security recipients benefitted from a one-time spike in energy prices during 2008. In addition, ARRA provided a one-time $250 payment to Social Security and SSI beneficiaries, retired railroad workers, and recipients of benefits from certain programs run by the VA. In 2009, some persons also benefitted from a Recovery Rebate tax credit on their 2008 federal income tax returns ($600 for unmarried persons, $1,200 for married couples) if they did not receive the economic stimulus payment in 2008 or their rebate was higher when calculated using their 2008 financial information.[31] In addition, the CPI-U, which is used to index the dollar values in the official poverty thresholds, was lower in 2009 than in 2008 resulting in slightly lower poverty thresholds for 2009 than in 2008. Thus, receipt of additional income and a lower poverty threshold help explain why the 65 and older age group experienced lower poverty rates in 2009 than in 2008, unlike any other age group.

The next table highlights who among the aged are more economically vulnerable. **Table 2** provides poverty rates for Social Security beneficiaries aged 65 and older in 2008. It is based on the most recent statistics published by SSA, which include Social Security beneficiaries who may be receiving retired worker benefits, dependents’ or survivor benefits, disability benefits, or transitionally insured benefits. Social Security beneficiaries comprised approximately 86% of the 65 and older age group. SSA does not provide a breakdown by beneficiary type. Among all beneficiaries, those aged 80 and older have a poverty rate of 9.4%, which is 1.5 times that of the “young old,” the 65-69 age group. The incidence of poverty rises with age. The disparities in poverty among the old can also be seen between men and women. The oldest women, those aged 80 and older, have markedly high poverty rates (11.8%). The rate of poverty among women aged

[31] For more information on the Recovery Rebate, see the Internal Revenue Service’s Recovery Rebate Information Center at http://www.irs.gov/newsroom/article/0,,id=186065,00.html.

80 and older is almost three times that of men aged 65-69 and more than twice that of men aged 80 and older.

Table 2. Poverty Rates for Social Security Beneficiaries, by Sex and Age, 2008

	Age	Number ('000)	Poverty Rate
All persons	65-69	9,242	6.0%
	70-74	7,522	7.4%
	75-79	6,557	8.3%
	80 or older	9,085	9.4%
	65 or older	32,406	7.8%
Men	65-69	4,385	3.8%
	70-74	3,345	4.6%
	75-79	2,840	6.3%
	80 or older	3,369	5.4%
	65 or older	13,939	4.9%
Women	65-69	4,858	8.0%
	70-74	4,176	9.7%
	75-79	3,717	9.8%
	80 or older	5,716	11.8%
	65 or older	18,467	9.9%

Source: Social Security Administration, *Income of the Population 55 or Older, 2008*, Washington, DC, April 2010, Table 11.2, available at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/2008/sect11.pdf.

Note: A beneficiary may be receiving retired worker benefits, dependents' or survivors' benefits, disability benefits or transitionally insured benefits.

How Critical are Social Security Benefits?

Social Security benefits are the most common source of income for those aged 65 and older, with about 87% having received benefits in 2008.[32] The relative importance of Social Security, or how much individuals depend on Social Security, is evident in the commonly cited statistic that, for a third of beneficiaries, these benefits constituted at least 90% of their total income.[33]

Table 3 shows which beneficiaries depend more critically on their Social Security benefits than others. It looks at the age distribution of beneficiaries' reliance on their Social Security benefits. For measuring reliance on Social Security benefits, the Social Security Administration tabulations use beneficiary units, defined as either married couples living together in which at least one member is aged 65 or older, or non-married persons aged 65 or older. **Table 3** shows that the older one gets, the greater the reliance on, or proportion of income from, Social Security benefits. Thus, the oldest among the 65 and older age group depend the most on their Social Security

[32] Social Security Administration, *Fast Facts and Figures about Social Security, 2010,* based on the March 2009 CPS. The next common sources of income for this age group are asset income (54%), private pensions (28%), government pensions (14%), and earnings (26%). See http://www.socialsecurity.gov/policy/docs/chartbooks/fast_facts/2010/fast_facts10.pdf.

[33] In 2008, there were almost 51 million persons receiving Social Security benefits with an average benefit of $1,055 per month. The maximum possible benefit for a retired worker at full retirement age was $2,185 per month.

benefits. For more than half of the 80+ age group (50.1%), Social Security benefits are at least 80% of total income. In contrast, for only 30.2% of the 65-69 age group, these benefits are at least 80% of total income. Similarly, for about 40.2% of the 65-69 age group, these benefits are less than 40% of their total income. In other words, reliance on Social Security benefits for the 65-69 age group is far less than for the oldest group.

Table 3. Social Security Benefits as a Proportion of Beneficiary Units' Total Income, by Age, 2008

Proportion of Income	Age 65+	Age 65-69	Age 70-74	Age 75-79	Age 80+
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Less than 40%	26.9%	40.2%	28.6%	22.5%	17.7%
40 to under 80%	32.1%	29.7%	33.5%	33.7%	32.2%
80% or more	40.9%	30.2%	37.9%	43.8%	50.1%
Number of units ('000)	25,053	6,595	5,481	5,104	7,873

Source: Social Security Administration, *Income of the Population 55 or Older, 2008,* Washington, DC, 2010, Table 9.A1, available at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/2008/sect09.pdf.

Notes: Beneficiary units are defined as married couples living together (at least one of whom is aged 65 or older) and non-married persons aged 65 and older. Percentages may not sum to 100% due to rounding.

Overall economic resources available to older beneficiaries also vary by age. Based on data from the Social Security Administration (not shown in **Table 3**),[34] the median household income for all 65 and older beneficiary units was $24,857 in 2008. However, more than half of the 80+ age group had incomes less than $20,000 compared with only 28% of the 65-69 age group. At the upper end of the income distribution, almost 22% of beneficiary units in the group aged 65-59 had incomes of at least $75,000 compared with only 5.8% of the oldest old.

[34] Social Security Administration, *Income of the Population 55 or Older, 2008*, Washington, DC, 2010, Table 3.A8, available at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/2008/sect03.pdf.

A One-Time Payment as a Form of Economic Stimulus

Several lawmakers have proposed a one-time payment to Social Security beneficiaries as a way to stimulate demand to assist the weak economic recovery. Despite the National Bureau of Economic Research's (NBER's) announcement that June 2009 was the official end of the recent recession, current economic indicators are anemic. The unemployment rate has hovered around 9.6% for the last several months. Real (inflation adjusted) Gross Domestic Product (GDP)—the output of goods and services produced by labor and property located in the United States—increased at an annual rate of 2.0% in the third quarter of 2010 (from the second quarter to the third quarter), according to advance estimates from the Bureau of Economic Analysis.[35] In the second quarter, output increased at an annual rate of 1.7%.

One tool available to improve the pace of economic recovery is to increase government spending on items which can be expected to boost economic activity. Government spending can take various forms: federal investments on infrastructure, goods and services, aid to state and local governments, or transfer payments to individuals to increase the income available to them. Other fiscal policy options that serve to increase demand include reducing taxes on individuals and/or firms. For a fiscal stimulus to be effective, there is consensus that it needs to be timely, well-targeted, and temporary.[36] Thus, spending ought to be targeted at those who are liquidity constrained—those who would spend it immediately and not save it. It should be temporary to increase output (in periods of relatively low economic activity) in the short run but not increase a long run-deficit. Government spending creates additional income, which in turn creates additional spending, resulting in a cumulative impact on the economy that is a multiple of the original amount of spending. For example, extending unemployment benefits would more than likely encourage immediate spending because unemployed individuals are, in general, cash-starved and likely to spend any additional benefits received.

CBO published recent estimates on categories of government spending and other fiscal policy options that can be expected to provide such a boost to the economy. These temporary expenditures are assumed to be deficit-financed and will add to government debt in the short run. **Table 4** lists the fiscal multipliers associated with several policy options. A multiplier is defined as the change in units of output (or GDP) as a result of a change in one unit of spending. Thus, a multiplier of 1.9 for government spending on unemployment benefits implies that a $1 increase in this type of spending will increase total economic activity by $1.90. The higher the multiplier, the more effective the fiscal stimulus. The ranges between the high and low values of the multiplier in the table are designed to encompass most economists' views.

Table 4. Cumulative Effect of Policy Options on Output (GDP), 2010-2015

	Cumulative Effect on GDP (dollars per dollar of total budget cost)	
Category of Spending	**High**	**Low**
Policy options with a substantial proportion of impacts beginning in 2010		
Increasing aid to the unemployed	1.9	0.7

[35] See http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.

[36] Douglas W. Elmendorf and Jason Furman, *If, When, How: A Primer on Fiscal Stimulus*, The Hamilton Project, Washington, DC, January 2008, http://www.brookings.edu/~/media/Files/rc/papers/2008/0110_fiscal_stimulus_elmendorf_furman/0110_fiscal_stimulus_elmendorf_furman.pdf.

	Cumulative Effect on GDP (dollars per dollar of total budget cost)	
Category of Spending	**High**	**Low**
Reducing employers' payroll taxes that increase their payroll	1.3	0.4
Reducing employers' payroll taxes	1.2	0.4
Reducing employees' payroll taxes	0.9	0.3
One-time Social Security payment	0.9	0.3
Allowing full or partial expensing of investment costs	1.0	0.2
Policy options with a substantial proportion of impacts beginning in 2011		
Investing in infrastructure	1.2	0.5
Providing aid to states for other than infrastructure	1.1	0.4
Providing additional refundable tax credits for lower and middle income households in 2011	0.9	0.3
Extending higher exemption amounts for the Alternative Minimum Tax	0.4	0.1
Reducing income taxes in 2011	0.4	0.1

Source: Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2010 and 2011*, (Table 1), http://www.cbo.gov/ftpdocs/108xx.doc10803/01-14-Employment.pdf.

Note: The change in GDP is estimated as GDP with a policy option minus GDP without a policy option.

As can be seen in **Table 4**, the top three categories of fiscal policy options expected to have the highest impact are increasing aid to the unemployed, reducing employers' payroll taxes, and reducing payroll taxes for employers who increase their payroll.[37] While there is much debate on the exact sizes of these multipliers, there is considerable agreement that additional government spending can work only if the recipients quickly spend the money that they receive. Therefore, additional one-time payments can generate additional demand only to the extent that the recipients spend the additional income. In their 2010 report on policy options, CBO states that many of the elderly save at rates similar to those in the working-age population, resulting in this policy having a moderate impact on output. As a result, Social Security beneficiaries are not expected to increase spending as a result of a one-time payment as much as would beneficiaries of several other government spending options. This explains why spending on unemployment benefits has a higher impact on total economic activity (higher multiplier) than a one-time payment to Social Security beneficiaries, many of whom are likely to save the additional money. The modest additional spending for providing a one-time payment in lieu of a Social Security COLA (roughly $13 billion as described in Budget Impact section later) along with the moderate expected impact (or "bang for the buck") is likely to result in a small economic stimulus.

[37] This policy option would give employers a one-year non refundable tax credit against their payroll tax liability for incremental increases in their payrolls during 2010. To prevent firms from firing employees and hiring new ones, the credit could be based on the difference between the wage base in the current quarter and the wage base four quarters previously.

An expansion in debt due to a fiscal stimulus is expected to increase output and employment. Once output and employment reach their full potential, fiscal restraint in the form of additional taxes or reduced spending would have to be imposed to reverse the accumulation of government debt, or future output will grow more slowly than otherwise. According to the CBO study, there is no contradiction in expanding government spending today and imposing restraint several years later. CBO estimates that the presence of large current unused capacities (underused buildings and offices, the high unemployment rate) has resulted (as of February 2010) in the nation's output being about 6% less than its full potential.

Means Testing

Means testing[38] the one-time payment could be viewed as a way to target the payments to those in greatest financial need and to strengthen the economic stimulus effect of the payments (on the basis that low-income beneficiaries would be more likely to spend the money quickly). **Table 2** and **Table 3** showed that the population aged 65 and older as a group is not uniformly economically vulnerable, and certain subgroups such as those aged 80 and older are more likely to suffer economic hardship.

Although means testing a one-time payment would reduce the overall cost to the federal government, if payments were processed using data from federal tax returns, this would increase the administrative difficulties associated with the payments (e.g., some low-income beneficiaries do not file tax returns) and potentially delay the payments' arrival. In addition, lawmakers would have to determine the income threshold for a means test, which could be a contentious matter for practical and political reasons (ideally, the income threshold would be set at a level that would effectively target the payments without excluding a large share of the beneficiary population). It may be possible to approach means testing through certain low-income Medicare beneficiary categories, however, this approach has not yet been explored.[39]

Parity for Certain Government Retirees and Residents of U.S. Territories

Federal employees who exclusively worked under CSRS and certain state and local government retirees are not eligible for Social Security benefits because they worked in jobs that were not covered by the Social Security system. Aged, blind, and disabled residents of Guam, Puerto Rico, and the U.S. Virgin Islands are not eligible for SSI benefits but may be eligible for federally funded Aid to the Aged, Blind, and Disabled (ABD) benefits administered by their territorial governments.[40] Thus, both of these groups would not be eligible for a one-time federal payment made to all Social Security beneficiaries and SSI recipients. Extending a one-time federal

---

[38] Some benefits programs use means tests to determine eligibility. Means tests may include a threshold asset amount, or a threshold income amount, above which an individual or household becomes ineligible for benefits.

[39] Certain low-income individuals who are aged or have disabilities, as defined under SSI program, and who are eligible for Medicare are also eligible to have their Medicare Part B premiums paid for by Medicaid under the Medicare Savings Program (MSP). Eligible groups include Qualified Medicare Beneficiaries (QMBs), Specified Low-Income Medicare Beneficiaries (SLMBs), and Qualifying Individuals (QI-1s). QMBs have incomes no greater than 100% of the federal poverty level (FPL) and assets no greater than $4,000 for an individual and $6,000 for a couple. SLMBs meet QMB criteria, except that their incomes are greater than 100% of FPL but do not exceed 120% of FPL. QI-1s meet the QMB criteria, except that their income is between 120% and 135% of poverty and they are not otherwise eligible for Medicaid.

[40] ABD benefits are authorized by Titles I, IV, X, and XVI of the Social Security Act. Residents of the Commonwealth of the Northern Mariana Islands are eligible for SSI but not ABD. Residents of American Samoa are not eligible for SSI or ABD.

payment to all government retirees who do not receive Social Security and to all territorial ABD beneficiaries may present administrative difficulties in properly identifying and paying eligible recipients.

Treatment of Certain Government Retirees and Residents of U.S. Territories Under the ARRA

The economic recovery payments authorized by the ARRA were made only to adult Social Security, railroad retirement, veterans disability beneficiaries, and all SSI recipients. Thus, CSRS, certain state and local government retirees, and aged, blind, and disabled residents of U.S. territories were not eligible for these payments.

Section 2202 of the ARRA authorized a refundable tax credit of $250, or $500 in the case of a couple filing jointly, in tax year 2009 for any local, state, or federal government retiree receiving a public pension for work not covered by Social Security and not otherwise eligible for an economic recovery payment. Because the amount of this credit was equal to the amount of the economic recovery payment authorized by the ARRA, it served to provide government retirees with a monetary benefit equivalent to that provided by the economic recovery payment. However, because this tax credit was not available until a person filed his or her 2009 tax return in 2010, these government retirees did not see this monetary benefit until several months after the economic recovery payments were made.

The ARRA did not contain a provision for any economic recovery payments or similar benefits to aged, blind, and disabled residents of Guam, Puerto Rico, and the U.S. Virgin Islands.

Improper Economic Recovery Payments Under the ARRA

A September 2010 audit report by the SSA Office of the Inspector General (SSA-OIG) found that economic recovery payments authorized by the ARRA were sent to more than 71,000 former Social Security beneficiaries and SSI recipients who were deceased and to more than 17,000 incarcerated persons and that these payments cost over $22 million.[41] The SSA reports that it accurately issued more than 99.8% of the approximately 52 million economic recovery payments to Social Security beneficiaries and SSI recipients.[42]

For a Social Security beneficiary or SSI recipient to qualify for an economic recovery payment under the ARRA, he or she must have been eligible for Social Security benefits as an adult or SSI benefits in any of the months of November or December 2008 or January 2009. The SSA-OIG identified 71,688 economic recovery payments that were sent to former Social Security beneficiaries or SSI recipients who had died before November 2008 and thus were not eligible under the ARRA. In 63,481 of these cases, the SSA was notified of the person's death and payments were made either because the agency was not aware of the death when it certified payment or because the SSA did not properly review its own files.

---

[41] Social Security Administration, Office of the Inspector General, *Economic Recovery Payments for Social Security and Supplemental Security Income Beneficiaries*, Audit Report A-09-10-11017, September 2010. Hereafter cited as SSA-OIG Audit Report A-09-10-11017, available at http://www.socialsecurity.gov/oig/ADOBEPDF/A-09-10-11017.pdf.

[42] Ibid., p. D-2.

The SSA-OIG found that 17,348 prisoners and other incarcerated persons received economic recovery payments under the ARRA.[43] However, depending on the timing of each person's incarceration, these payments may not have been improper. There are no provisions in either the ARRA or the Social Security Act that prohibit the payment of an economic recovery payment to a person who was not incarcerated during the qualifying period, but subsequently became incarcerated and was incarcerated at the time his or her economic recovery payment was issued.[44]

The SSA and the Department of the Treasury have the authority to stop payment or reclaim any Social Security or SSI benefits paid, including those paid by electronic funds transfer, after a beneficiary's death. However, the ARRA does not grant this authority to the SSA or the Treasury Department in cases of improper economic recovery payments. Thus, although the Treasury Department can reclaim money from checks issued to deceased beneficiaries that are improperly cashed by other persons, the federal government cannot reclaim money from improper payments issued via electronic funds transfer.

Budget Impact

In some cases, those who do not support a one-time payment in lieu of a Social Security COLA cite the potential cost to the federal government, and the projected effect on the Social Security trust fund, among the primary reasons for taking no action. The estimated cost varies depending on how the proposal is structured.

Among the key factors affecting cost is the dollar amount of the one-time payment. Most proposals would provide a payment of either $150 or $250. Another key factor is the pool of eligible beneficiaries. Some proposals would provide a one-time payment to Social Security beneficiaries only, whereas others would provide a one-time payment to Social Security beneficiaries as well as beneficiaries of other federal programs in which a COLA is connected in some way to the Social Security COLA. The size of the eligible beneficiary pool would also be affected if the one-time payment were provided to all beneficiaries of the programs included (i.e., adult and child beneficiaries) or limited to adult beneficiaries only.

To address concerns about the impact of a one-time payment in lieu of a COLA on the federal budget and on the Social Security trust fund, some proposals include provisions that would offset the cost of the one-time payment. Examples of offset provisions include a temporary increase in Social Security payroll taxes for some higher-wage earners and a redirection of unobligated ARRA funds for this purpose.

Some proposals, for example, are modeled after the one-time $250 economy recovery payments provided to Social Security and certain other beneficiaries in 2009 under ARRA. Under ARRA, a one-time payment of $250 was provided to adult Social Security beneficiaries, all SSI beneficiaries, veterans' compensation and pension beneficiaries, and adult railroad retirement and disability beneficiaries. ARRA also provided a one-time $250 refundable tax credit for federal, state and local government retirees who did not otherwise qualify for an economic recovery

[43] Ibid., p. 5.

[44] The No Social Security Benefits for Prisoners Act of 2009 (P.L. 111-115), enacted on December 15, 2009, prohibits the SSA from paying any retroactive Social Security or SSI benefits to any person while that person is incarcerated. However, this act does not apply to economic recovery payments under the ARRA. In its response to the SSA-OIG audit, the agency states that if legislation authorizing another economic recovery payment is pending, it would "work with Congress and OMB on proposed legislation, and to the extent possible, support provisions specifically prohibiting payments to incarcerated beneficiaries, both at the time of certification and payment" (Ibid., p. D-3).

payment. As of September 25, 2009, nearly 54.7 million economic recovery payments, totaling more than $13.6 billion, were issued by SSA, the VA, and the RRB.[45]

SSA has published estimates of the cost of several proposals to provide a one-time payment in lieu of a COLA. For example, H.R. 3536 (Representative McCarthy) would provide a one-time payment of $150 to Social Security beneficiaries in 2010. SSA estimated that the bill would result in payments to about 50.2 million Social Security beneficiaries at a cost of $7.5 billion.[46]

S. 1685 (Senator Sanders) would provide a one-time payment of $250 to adult Social Security beneficiaries, SSI recipients, veterans' compensation and pension beneficiaries, and adult railroad retirement and disability beneficiaries in 2010. SSA estimated that the bill would result in payments to 55.6 million individuals at a cost of about $13.9 billion, which would be offset by a revenue provision included in the bill. The companion bill in the House is H.R. 3597 (Representative DeFazio).[47]

H.R. 5834 (Representative Deutch) would provide a payment of $250 (indexed to the CPI-E) to beneficiaries of Social Security, Supplemental Security Income, railroad retirement pensions, and veterans' disability compensation or pension benefits in each year, including 2011, that a COLA is not paid, among other provisions. SSA estimated the cost of the one-time payment in 2011 to be $13.3 billion in present value terms (or $14.2 billion in nominal terms), which would be offset by revenue provisions included in the bill.[48]

In an October 19, 2010, letter to Senate Minority Leader Mitch McConnell, Senate Majority Leader Harry Reid, and other Democratic Senators expressed support for "$250 in emergency relief to our nation's most vulnerable senior citizens and disabled veterans to help them pay for their increased cost of living." The letter states that the estimated cost of the payments is $13 billion.[49]

Conclusion

The announcement that there will be no Social Security COLA in 2011, for the second year in a row, has prompted some members of Congress and President Obama to call for legislative action. Besides Social Security beneficiaries, beneficiaries of several other federal programs are affected by the Social Security COLA including beneficiaries of SSI, veterans' pension benefits and railroad retirement pensions. CBO and SSA both forecast that a Social Security COLA will next be paid in 2012.

Members of Congress have introduced a number of bills in the 111th Congress to address the absence of a Social Security COLA. The bills take various approaches. Some bills would provide a one-time payment in lieu of a COLA. Other bills would require the use of a different measure of inflation to determine the Social Security COLA or would provide a one-time, *ad hoc* COLA of a

---

[45] For more information on the $250 economy recovery payments to Social Security and certain other beneficiaries in 2009 under ARRA, see CRS Report R40188, *Social Security Provisions in the American Recovery and Reinvestment Act of 2009: Supplemental Appropriations, Economic Recovery Payments, and Tax Credits for Certain Government Retirees*, by Scott Szymendera.

[46] Letter dated September 11, 2009, from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Carolyn McCarthy.

[47] Letter dated September 11, 2009, from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Bernard Sanders.

[48] Memorandum dated October 8, 2010, from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Ted Deutch.

[49] The text of the letter is available at http://reid.senate.gov/newsroom/pr_10_19_10_costliving.cfm.

specified percentage. Democratic congressional leaders have stated their intent to bring legislation to provide a one-time payment to Social Security and certain other beneficiaries to the floor when Congress returns after the November elections.

Supporters of a one-time payment view it as a way to stimulate the economy. Supporters also intend the payment to assist seniors who may be vulnerable to rising healthcare costs, particularly older seniors and women.

Others argue that a one-time payment is not necessary because most beneficiaries received an unusually high COLA of 5.8% in 2009 and were protected against deflation in a subsequent period. The CPI-W remained below its 2008 peak during the measurement periods used to determine the 2010 and 2011 COLAs. Opponents also cite the budget cost of providing a one-time payment, which would vary depending on who receives the payment. In addition, some research suggests that the provision would not be an effective stimulus measure, particularly when compared to other policy options.

Appendix. The Chained CPI-U

In August 2002, BLS introduced a supplemental new index, the chained CPI-U (C-CPI-U), in response to concerns raised by the Boskin Commission about the methodology underlying the Consumer Price Index for all Urban Consumers (CPI-U). The goal of the C-CPI-U is to eliminate substitution bias, which affects the CPI-U because the latter index does not accurately capture how consumers change their buying habits in response to price changes. As a result, the CPI-U and related indices, such as the CPI-W (used as the base for the Social Security COLA), overestimate how much money is needed to maintain a constant standard of living.

BLS has issued a C-CPI-U series that begins in December 1999. Since 1999, the C-CPI-U has generally increased more slowly than the CPI-U and other BLS inflation indices. Between the third quarter of 2000 and the third quarter of 2010, the C-CPI-U increased by a total of 23.3%, the CPI-U increased 26.1%, the CPI-E increased 26.2%, and the CPI-W increased 27.5%.[50] From the third quarter of 2008 to the third quarter of 2009, however, the C-CPI-U rose 0.9 percentage point less than the CPI-U and 0.4 percentage point less than the CPI-W.

To date, the C-CPI-U has not been incorporated into any indexing provisions of federal government programs. One difficulty with using the C-CPI-U is that it is subject to two revisions after its initial release. Depending on the month, the final C-CPI-U is not available for as long as two years after that particular month.[51]

Author Information

Sharmila Choudhury
Section Research Manager

Alison M. Shelton
Analyst in Income Security

Dawn Nuschler
Specialist in Income Security

Scott Szymendera
Analyst in Disability Policy

[50] CRS calculations from BLS historical data available at http://www.bls.gov/cpi/. Historical data for the C-CPI-U include initial data for 2010 and interim data for 2009.

[51] For more information on the C-CPI-U, see CRS Report RL32293, *The Chained Consumer Price Index: How Is It Different, and Would It Be Appropriate for Cost-of-Living Adjustments?* , by Brian W. Cashell

Disclaimer